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MEMORANDUM FOR THE RECORD

SUBJECT: 14 August 1987 Meeting With Dr. James Colvard, Deputy Director, Office of Personnel Management to Discuss CIA's Draft Human Resource and Compensation Proposal

1. On 14 August 1987, Hugh E. Price, Director of Personnel, and the undersigned met with Dr. James Colvard, Deputy Director of the Office of Personnel Management to get his views on our draft Human Resources Proposal.
2. We began by mentioning that we had met yesterday with Deputy Associate Director Tony Ingrassia and Assistant Director Donna Beecher, and that while generally favorable to our approach, they had raised some question about its cost. Dr. Colvard said that he saw our proposed system costing two to five percent more but he said that he saw this as an investment and felt we'd get a good return on that investment. Looking back to his days as a senior manager in the Navy, he said that he had seen the need to make similar personnel investments and, while it always was hard to prove everything to the bean counters, he had been persuaded that there were important payoffs. In any event he felt that such approaches were more straight-forward because, in its effort to get good people, the government already had distorted the position classification system.
3. Dr. Colvard, in discussing the existing distortions in the General Schedule system, went on to explain his views on comparability, expressing some reservations about estimates which purport to show that government salaries are 20-30 percent behind the private sector. He said that he recently had studied the engineering profession. If you looked at engineers narrowly by grade you could conclude that government engineers were being underpaid by 23-33 percent, but if you looked at government engineers overall there was only a six percent defficiency. He noted that there were very few government engineers at the lower GS grades. More to the point, the proportion of engineers at the higher grade levels in government exceeded the proportion of senior engineers in the private sector. You could either conclude from this that all of the state-of-the-art engineering work was being done in government and all of the routine engineering work was being done in the private sector or, you could conclude as he did, that in order to attract the engineering talent the government needed, the government got around the salary problem by distorting the General Schedule system so that routine engineering jobs were put on the books at the more senior GS grades. He proposed that Congress give a one-time government-wide six percent adjustment, put the comparability issue behind it and then use the Employee Cost Index to keep pace with the private sector thereafter.

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4. We asked Dr. Colvard to comment on various aspect of our draft report.

a. We noted that one way of getting away from the distortions he had spoken about and giving managers greater flexibility was to get away from personnel ceiling and average grade constraints and going to budget control as the Defense Department had done. Dr. Colvard said he thought personnel ceilings did not make sense and he felt budget control was "the only way to go." He urged us to "do it."

b. We said that one major new approach in our draft proposal was to develop a flexible benefits package in place of the government's current one-size-fits-all health insurance, life insurance, and annual leave programs. Dr. Colvard said that this was a good idea and said we should try it. We noted, however, that it probably would be necessary for us to withdraw from the government-wide federal employees health benefits program which the Office of Personnel Management ran. He immediately called the Associate Director for Retirement and Insurance, Jean Barber, and after a brief conversation, said that Ms. Barber, not only thought it was a good idea for us to withdraw from the Federal Health Program, she strongly supported such a move since the Office of Personnel Management was unable to help CIA with its special needs.

c. We said that we were considering certain changes in the Senior Intelligence Service (SIS), the CIA's equivalent of the Senior Executive Service (SES) and that some of these thoughts paralleled recommendations which the Senior Executive Service Advisory Board had made recently to Constance Horner, Director of the Office of Personnel Management.

1. The Senior Executive Service Advisory Board recommended as we did that the bonus award pool which is now three percent of Senior Executive Service payroll be raised to five percent of payroll. Dr. Colvard said that he opposed this. It was not the amount of money involved but rather, that in the wake of the controversy surrounding the recent executive pay raise, it would be politically unacceptable. He said, however, that this did not mean that CIA should avoid trying, since with a much smaller population base the CIA change might be less controversial.

2. The Senior Executive Service Advisory Board has recommended that the \$10,000 Meritorious Officer stipend and the \$20,000 Distinguished Officer stipend be raised to \$16,000 and \$29,000 respectively. Dr. Colvard said that he supported this recommendation and, indeed, suggested that these stipends be changed from a fixed dollar amount to a percent of salary so they would keep pace with future changes in salary.

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3. The Senior Executive Service Advisory Board recommended as we did that senior executives be allowed to cash out annual leave rather than wait until retirement. Dr. Colvard agreed that this was a win-win proposal giving employees immediate access to money they would eventually get and allowing the government to avoid accumulating a large unfunded liability and then having to pay for the hours of leave at future rather than present hourly rates. He said that he supported this proposal.

d. We said "incentive pay," or "pay for performance," was an element in our proposal but there was fear of incentive pay in certain quarters. Dr. Colvard said that he favored the incentive pay approach and that while he understood the fears, he was not sympathetic. He said that 75 percent of the people think they are in the top 50 percent and the mathematics of that perception leads to a problem. He suggested that employees most often file grievances, not because they really dispute the judgment of the supervisor but, because embarrassed in front of peers, they appeal to defend themselves. The answer is an incentive pay plan which gives bonuses to a higher percentage of people and which publishes the size of the average bonus. Then when an employee is asked by a co-worker if he received an award he or she can say yes. However, the Agency privately sends one kind of signal to the very good employee who got a \$2500 bonus when the average bonus was \$1000, and a very different kind of signal to the not so good employee who only got \$25.

e. We suggested that in the future it might be useful as a cost containment measure to more heavily use the bonus rather than the permanent salary increase. However, if we did, the very good employee who would be getting substantial bonuses each year could be disadvantaged because the bonus would not count toward "high-three" for retirement annuity computation and other purposes. Accordingly, we were considering seeking authority to have bonus payments count toward "high-three." Dr. Colvard said that he did not favor this change.

5. Dr. Colvard throughout the discussion said that he appreciated our innovative thinking and he made it clear that our proposals would not cause a problem for the Office of Personnel Management. We asked, in this regard, if he would be willing to speak to our oversight committees on these personnel issues and he said he would. We also asked about some of the players in the House Post Office and Civil Service Committee and the Senate Governmental Affairs Committee. We suggested that given the concerns which the staff of the House Permanent Select Committee on Intelligence had raised about the views of the House Post Office and Civil Service Committee we might wish as a

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matter of courtesy to speak with the latter committee. Dr. Colvard suggested we speak with his Director of Congressional Relations, Bruce Navarro and said that he would alert Bruce to the fact that we might call.

6. At the conclusion of the meeting, Dr. Colvard thanked us for keeping him informed about our draft proposals and expressed the hope that we would continue to meet with him periodically.

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Deputy Director of Personnel for
Compensation, Automation and Planning